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SUSTAINABLE FINANCIAL MANAGEMENT: STUDY ON COMPANIES THAT IMPLEMENT ESG (ENVIRONMENTAL, SOCIAL, GOVERNANCE)

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Abstract

This research aims to analyze the relationship between sustainable financial management and the application of ESG (Environmental, Social, Governance) principles in companies. In the context of global changes that increasingly emphasize sustainability, the integration of ESG in financial management practices is becoming a key factor in creating long-term value and managing business risks. Through a systematic literature review, this research identifies the best practices implemented by companies in integrating ESG into financial planning, investment and risk management. The study results show that companies that actively implement ESG tend to have more stable financial performance, with reduced long-term risk and increased access to cheaper financing. However, the relationship between ESG and financial performance is contextual, influenced by factors such as industry sector, geographic region and company size. The implications of these findings provide guidance for companies to adopt strategic and sustainable ESG policies to support their financial goals. This research also reveals that although ESG offers long-term benefits, implementation challenges, such as initial costs and data limitations, remain major barriers that need to be overcome.

Keywords: Sustainable Financial Management, Corporate, Environmental, Social, Governance.

INTRODUCTION

In the modern business era full of uncertainty, financial practices no longer only focus on short-term profits, but also consider long-term sustainability. Companies are required to not only pursue profits, but also pay attention to the social and environmental impacts of their business activities (Suhardjo et al., 2024). In this context, sustainable financial management

emerges as a strategic approach to align financial objectives with sustainability principles. This approach encourages companies to consider non-financial risks that can affect financial performance in the long term.

Sustainable financial management prioritizes the principle of prudence in managing financial resources by paying attention to environmental, social and governance factors. In practice, companies that apply sustainability principles tend to integrate ESG (Environmental, Social, Governance) factors into the financial decision-making process, including investment, financial planning and risk management (Junaedi, 2024). This is important considering that various global crises such as climate change, social inequality and corruption have had a direct and indirect impact on company stability and reputation.

The implementation of ESG is not only seen as a moral or regulatory obligation, but also as a strategy to create long-term value. ESG has been proven to provide competitive advantages for companies in building reputation, attracting investors, increasing operational efficiency, and strengthening consumer loyalty. Institutional investors and stakeholders are now paying more attention to sustainability aspects in assessing the health of companies. Thus, the integration of ESG into financial management is no longer an option, but a necessity (Febrianti & Rahmayanti, 2023).

On the other hand, ESG also functions as a tool for mitigating non-financial risks that could disrupt operational continuity. For example, climate risks can impact supply chains, social risks related to employment can trigger protests or boycotts, and poor governance can reduce investor confidence (Mairosa & Sarumpaet, 2024). Therefore, financial management that takes ESG into account will be more resilient in facing complex and dynamic global challenges.

Globally, the implementation of ESG continues to show significant development. International financial institutions such as BlackRock, MSCI, and the World Economic Forum have encouraged companies to adopt ESG principles across the board. In fact, credit rating agencies and large investors now use ESG scores as an important indicator in assessing the suitability of investments. Developed countries have developed frameworks and regulations to ensure that companies implement sustainability principles in a transparent and measurable manner (Agbakwuru et al., 2024).

At the national level, Indonesia also shows its commitment to sustainability. The Financial Services Authority (OJK) has issued guidelines and regulations related to sustainable finance, including the Sustainable Finance

Roadmap Phase II (2021–2025). The Indonesian Stock Exchange (BEI) also requires listed companies to disclose sustainability reports that include ESG aspects. A number of large companies in Indonesia are starting to adopt ESG strategies in their governance and business operations as part of their transformation towards sustainable corporations (Prasadhita & Nawawi, 2024).

However, ESG implementation in Indonesia still faces various challenges, ranging from a lack of understanding, limited ESG data, to the gap between commitment and real action. Literature research is important to understand how companies that have implemented ESG manage their financial aspects in a sustainable manner (Dewanti & Susila, 2024). This study can provide an overview of best practices and the obstacles faced, so that it can become a reference for other companies in developing sustainable financial strategies.

With this background, this research aims to examine sustainable financial management practices in companies that implement ESG through a literature review approach. It is hoped that this research can provide theoretical contributions in the development of financial management science and provide practical recommendations for companies in building tough, inclusive and sustainable business strategies.

RESEARCH METHOD

This research uses a literature review approach with the Systematic Literature Review (SLR) method. This method was chosen to obtain a comprehensive and in-depth understanding of sustainable financial management practices in companies that apply ESG (Environmental, Social, Governance) principles. This study focuses on identification, evaluation and synthesis of various previous research results relevant to the topic. The data sources used consist of scientific journal articles, annual and company sustainability reports, white papers from research institutions or financial institutions, as well as ESG reports from data providers such as Sustainalytics, MSCI, and Bloomberg ESG. This literature was obtained through systematic searches on academic databases such as Scopus, Web of Science, and Google Scholar, using a combination of relevant keywords.

Data analysis was carried out using a thematic analysis approach, where information from various literature is classified based on main themes related to ESG (environmental, social, governance) dimensions and sustainable financial management practices. Next, a literature synthesis

process was carried out to identify patterns, relationships and research gaps in the context of ESG and sustainable finance. Thus, the results of this research are expected to provide a comprehensive picture of how companies integrate ESG into their financial strategies and the implications for long-term performance and sustainability (Earley, M.A. 2014; Snyder, H. 2019).

RESULT AND DISCUSSION

Key Findings from the Literature

Various literature shows that sustainable financial management practices are increasingly becoming an integral part of corporate strategy, especially amidst increasing attention to environmental, social and governance (ESG) issues. One commonly implemented practice is the integration of ESG risks into the investment decision-making process. Companies are starting to evaluate the environmental and social impacts of projects or assets before making investments, taking into account potential long-term risks such as changes in climate regulations, reputation damage, or supply chain disruptions (Dwivedi, 2023).

Apart from that, the literature also shows that many companies are starting to allocate funds for sustainable projects through special financial instruments such as green bonds, sustainability-linked loans, and impact investing. These instruments not only expand access to financing sources, but also demonstrate a company's commitment to sustainability goals (Dathe et al., 2024). Companies that implement sustainable finance tend to have a more stable capital structure and lower financial risk in the long term.

In cash and liquidity management practices, companies with an ESG orientation also consider operational impacts on the environment and communities. For example, they are more selective in choosing partners and suppliers based on sustainability criteria, as well as adopting environmentally friendly procurement policies (Budiasih, 2024). Additionally, transparency in financial and non-financial reporting is becoming a major focus, with many companies combining annual reports with sustainability reports to demonstrate more comprehensive accountability.

The literature identifies that best practices in implementing ESG involve a holistic approach from strategic to operational levels. Leading companies such as Unilever, Patagonia, and Tesla have integrated ESG into their organizational mission and culture. They set clear and measurable ESG targets, publish regular sustainability reports, and establish special ESG committees within the corporate governance structure (Lina et al., 2024). This approach

ensures that every business decision considers the impact on the environment, society and business ethics.

Companies that are successful in implementing ESG also demonstrate active collaboration with stakeholders, including investors, employees, local communities and government. They actively receive input and carry out open dialogue to understand social and environmental expectations, so that the financial decisions taken are not only economically profitable, but also socially (Alhasanko et al., 2024). This builds public trust and strengthens the company's reputation in the eyes of the market and investors.

On the other hand, literature findings also emphasize the importance of digitalization and technology in supporting the implementation of ESG and sustainable finance. Many companies have adopted data-based reporting systems that make it easier to measure and monitor ESG indicators. Technologies such as blockchain, big data, and artificial intelligence are also starting to be used to assess environmental and social impacts more accurately and in real-time, thereby increasing effectiveness in financial decision making (Ellili, 2022).

Overall, the findings from the literature review show that ESG-based sustainable financial management practices not only provide benefits in terms of corporate social responsibility, but also have a positive impact on long-term financial performance. Companies that are able to manage ESG factors strategically demonstrate better resilience to crises, increased stakeholder loyalty, and more sustainable business growth. Therefore, ESG is no longer just a trend, but an important component in the transformation of modern financial management.

Analysis of the Relationship between ESG and Financial Performance

Based on a literature review, most research shows a positive relationship between ESG implementation and company financial performance. Companies that actively integrate ESG principles into their business strategy tend to have higher levels of profitability, lower costs of capital, and wider access to financing (Ahmed et al., 2024). This is because investors are starting to see ESG as an indicator of business resilience in the long term, so that companies with high ESG scores are considered more stable entities and worthy of funding.

However, not all literature shows uniform results. Some studies identify neutral, even negative relationships in certain contexts. For example, companies that focus too much on ESG aspects in the short term may

experience increased operational costs or capital expenditures that are not necessarily offset by an immediate increase in revenue (Ziolo, 2024). In some cases, sustainability orientation can also cause a shift in strategy which results in reduced efficiency in the short term.

Industry factors play an important role in strengthening or weakening the relationship between ESG and financial performance. Industries with high levels of exposure to environmental risks such as energy, manufacturing, and mining tend to exhibit more significant ESG–financial relationships. In these sectors, the implementation of ESG is very crucial because it involves compliance with environmental regulations, emissions management, and public perception (Ghibran & Kurniawan, 2024). In contrast, service or technology sectors may show more varied relationships depending on the social and governance dimensions applied.

Apart from industry, geographical factors also have an influence. Research in developed countries shows a stronger correlation of ESG to financial performance as supported by regulatory infrastructure, investor awareness and greater market pressure on sustainability practices. In developing countries like Indonesia, this relationship tends to still develop due to differences in regulatory compliance, ESG literacy, and limited data availability (Chen et al., 2023). Thus, the local context greatly determines the effectiveness of ESG implementation on company financial results.

Company size is also an important variable. Larger companies tend to have more resources to implement ESG initiatives holistically and strategically. They also have the capacity to absorb the initial costs of sustainable investments as well as to build transparent ESG reporting systems. In contrast, small and medium-sized companies (SMEs) often face limited funds, knowledge and infrastructure to implement ESG consistently, so that the relationship between ESG and financial performance can be less visible or even negative in the short term (Pangarso, 2024).

Another factor that influences the strength of the ESG relationship and financial performance is the level of ESG integration in strategic management. Companies that only implement ESG symbolically or simply fulfill reporting obligations are unlikely to show significant performance improvements (Christine et al., 2024). In contrast, companies that make ESG part of their strategic and operational decision-making processes, from risk management to product development, tend to enjoy clearer and more sustainable financial benefits.

Thus, the relationship between ESG and financial performance is not linear and universal, but is strongly influenced by the industrial context, region, company size, and the level of depth of ESG integration itself. Understanding these factors is important to avoid generalizations and to develop targeted ESG strategies. Therefore, a structured, contextual and measurable ESG approach is key in optimizing the company's financial and sustainability benefits simultaneously.

Implications for Financial Management

The integration of ESG principles into financial management practices provides both challenges and strategic opportunities for companies. Financial planning is now not only based on income and expenditure projections, but also considers risks and opportunities related to environmental, social and governance aspects (Schumacher, 2022). This encourages financial managers to broaden the scope of their analysis, including the long-term impact of issues such as climate change, social inequality, and compliance with ethical standards.

In the context of financial planning, ESG can influence long-term budget allocation decisions. For example, companies may need to allocate special funds for investments in environmentally friendly technologies, energy efficiency, employee training, or more transparent governance systems. Companies are also starting to prepare budgets based on projected environmental and social risks, which can have an impact on raw material prices, operations and asset values (Amanda & Hanif, 2024). In this way, financial planning that integrates ESG becomes more holistic and responsive to external changes.

When it comes to corporate investments, ESG plays an important role in the project evaluation process. Many companies are now implementing ESG screening to assess whether a project or asset complies with established sustainability standards. Projects that have positive environmental and social impacts tend to be preferred because they have the potential to strengthen the company's reputation and reduce the risk of litigation and regulation (Zakiyah & Maryanti, 2024). Apart from that, the company has also started investing in a sustainable portfolio which includes green bonds, renewable energy and clean technology.

Risk management is one aspect of financial management that is greatly impacted by ESG. By actively considering ESG risks, companies can anticipate and mitigate potential losses due to external issues that may have been

ignored, such as natural disasters, social conflicts, or governance scandals. ESG also expands the scope of risk analysis from solely financial to multidimensional, including reputation, legal compliance and operational continuity (Oyegunle-Esimaje, 2024). Therefore, many companies are now establishing ESG risk units or committees to strengthen corporate resilience.

Apart from that, the implications of ESG for financial management are also seen in changes in key performance indicators (KPIs). Not only profitability and operational efficiency, companies are now starting to measure performance based on sustainability metrics such as reduced carbon emissions, increased workforce inclusivity, and reporting transparency (Lin et al., 2023). This requires a financial reporting system that is integrated and capable of combining financial and non-financial data in a consistent and accountable manner.

Furthermore, ESG integration also impacts relationships with investors and financial institutions. Companies that have good ESG performance tend to get wider and cheaper access to financing, because they are considered entities that have lower long-term risk. Institutional investors are also starting to set ESG criteria as a prerequisite for providing funds, especially in long-term investments (Yeye & Egbunike, 2023). Therefore, financial management now needs to be more active in communicating ESG performance and strategies to external stakeholders.

Overall, the implications of ESG for financial management lead to a transformation of the role of the finance function from simply managing funds to driving corporate sustainability. Companies that are able to effectively integrate ESG into all financial processes will be better able to create long-term value, strengthen reputation, and maintain business continuity amidst increasingly complex global challenges.

CONCLUSION

Based on the results of the literature review, it can be concluded that sustainable financial management practices that integrate ESG (Environmental, Social, Governance) principles have become a strategic trend in the global business world. ESG is proven to not only strengthen a company's reputation and competitiveness, but also contribute to more stable and sustainable financial performance. Various best practices show that companies that proactively implement ESG through green investment policies, ESG risk management, and sustainability reporting tend to be more resilient to external challenges and able to create long-term value.

Answering the problem formulation, the relationship between ESG implementation and financial performance is dynamic and influenced by factors such as industry, geographic region and company size. Most of the literature shows a positive correlation, but in certain contexts it can also be neutral or negative. Thus, the integration of ESG into financial management is not just limited to fulfilling compliance, but is an important strategy that needs to be aligned with the business vision and characteristics of the company. ESG has proven to be an effective managerial tool in dealing with market uncertainty and driving long-term business sustainability.

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